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DIRECTORATE OF INTELLIGENCE

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CHINA'S MILITARY ASSISTANCE TO THE THIRD WORLD

Summary

During 1981 and 1982, in the second and third years of its new policy to sell arms for profit, China more than tripled the total value of Chinese arms exports sent to non-Communist Third World countries during the preceding 20 years. Largely due to orders for tanks, field guns, and fighter aircraft from Iraq, China signed contracts for over \$4.0 billion in the two years. 25X1

[REDACTED]

In order to meet the demand for weapons, Beijing has allocated major segments of its arms production capacity to exports and has proven able to provide high-quality, low technology weapons quickly. Chinese production costs are low, enabling Beijing to sell arms at competitive prices and still make sizable, hard currency profits. These funds will almost certainly assist in the modernization of China's arms production facilities and allow for the purchase of modern equipment and arms production technology from the West. 25X1

[REDACTED]

Beijing continues some military grant-in-aid programs and still offers concessionary terms to some less developed countries (LDCs). China, for example, continues its support to the Afghan insurgents, the anti-Vietnamese resistance in Indochina, and in 1982 provided the North Koreans with new fighter aircraft. 25X1

[REDACTED]

This memorandum was prepared by [REDACTED] Defense Issues Branch, China Division, Office of East Asian Analysis, with contributions from Office of Global Issues, Directorate of Intelligence, in response to a request from the Bureau of Politico-Military Affairs, Department of State. 25X1

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Background

China sold few arms before 1980. Beijing instead gave or sold weapons at concessionary rates to friendly nations. This policy was based in part on a desire to avoid being branded as an arms merchant by Third World countries. The Chinese no doubt sought to cultivate these nations through generous repayment plans, gratis aid, and favorable trade agreements. Pakistan, Tanzania, and Egypt were among the largest recipients of Chinese military aid. [REDACTED]

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New Arms Sales Policy

The desire to increase foreign exchange earnings led to a change in China's arms transfer policy in 1979. [REDACTED]

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[REDACTED]

Moreover, China's experience with Egypt and with Somalia, both of which had been acquiring Chinese arms since their break with the Soviets in the mid-1970s, demonstrated that Beijing could easily become an alternate supplier to countries with large inventories of Soviet equipment. [REDACTED]

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By early 1980, China had established seven corporations to represent segments of the defense industries in commercial negotiations and had set sales goal of \$1 billion for 1980 and 1981. The corporations stated that they would sell to almost any government (except Israel, South Africa, Taiwan, and South Korea) and that they would negotiate on the cost and terms of any item. Arms brochures were widely circulated, and by August 1981 Chinese weapons were advertised in the widely read International Defense Review. [REDACTED]

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The North Industries Corporation (NORINCO), which markets land armaments through direct contacts and international dealers, has been the most visible and successful of the Chinese corporations. NORINCO offers a wide array of 1950s-vintage Soviet-style weapons. Such weapons, though relatively unsophisticated, are reliable and easy to operate, and the Chinese sell them at highly competitive prices. A Chinese-built F-7 (MIG-21), for example, can be purchased for under \$2.5 million, whereas a comparable Soviet built fighter would cost about \$3.4 million. [REDACTED]

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Arms Sales

Beijing filled only a fraction of its arms sales goal in 1980. Sales, mostly to traditional customers, that year were less than \$100 million, or about half of the 1979 pace. In 1981,

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however, the Iran-Iraq conflict opened new markets in the volatile Near East, permitting China to conclude contracts for more than \$2.8 billion in 1981 and at least \$1.1 billion more in 1982. The \$4 billion amount is more than triple the total value (\$1.3 billion) of arms agreements with non-Communist LDCs between 1958 and 1980 (see table). [REDACTED]

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Iraq alone accounts for over \$3 billion in contracts with China. [REDACTED]

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China has attempted to preserve a public appearance of not selling to either belligerent and has insisted that the Iraqis present end-user certificates for the weapons from other governments and that no Iraqi ships or crews carry the arms from Chinese ports. [REDACTED]

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eight missile boats and a subchaser. The Egyptians announced during Chinese Premier Zhao Ziyang's visit to Egypt in December 1982, a new agreement that calls for the delivery of between 60-80 Chinese F-7 (MIG-21) aircraft to Egypt over the next few years. [redacted]

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Military Grants and Advisors

China has reduced the military assistance that it once provided free-of-charge to LDCs. This is particularly prominent in sub-Saharan Africa. Beijing in early 1980 began notifying traditional recipients of Chinese military largess that China could no longer afford to supply them with equipment and training on a grant basis. Because most of these African nations were either unable or unwilling to pay for Chinese materiel and advisors, the Chinese allowed existing contracts to expire and avoided committing themselves to new assistance agreements.

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-- Even China's closest friends in Africa such as the Tanzanians found the Chinese unrelenting. Tanzanian President Nyerere went to Beijing last year with the hope of receiving as much as \$25 million in military aid, but the Chinese committed themselves to providing only \$7 million in credits for spare parts and ammunition and refused to supply any new equipment.

-- President Mobutu of Zaire has received only slightly better treatment from the Chinese who have agreed to speed some neglected projects but have refused to commit themselves to new programs.

-- In Somalia's case, China stopped its shipments of military goods and brought home its instructors when the Somalias fell behind in their payments. [redacted]

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[REDACTED] 25X1

China's aid to the anti-Vietnamese resistance in Indochina goes primarily to the Democratic Kampuchean forces; small amounts have been supplied via the Thais to the major non-Communist resistance groups in Kampuchea. [REDACTED] 25X1

-- Estimates of total Chinese military assistance to the DK are difficult but we believe that at least \$100 million in military assistance has been provided to the DK since the beginning of 1979.

[REDACTED] 25X1

Benefits From the New Policy

Aside from earning badly needed foreign exchange, China benefits from occasional technology transfers from its foreign

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customers. Through its sales to Pakistan, China has had several opportunities to examine Western air-to-air missiles. Three years ago, China reduced its price for F-6s (MIG-19s) to Egypt when the Egyptians provided samples of Soviet SA-6 and SA-7 surface-to-air missiles, the AS-5 air-to-surface missile, the AT-3 Sagger antitank guided missile, and two MIG-23 fighters. [REDACTED]

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China's defense modernization program probably will benefit most from the inflow of hard currency, with large foreign orders sustaining China's weapons industries at a time of reduced domestic weapons procurement. [REDACTED]

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-- [REDACTED] Chinese defense plants are allowed to retain up to 40 percent of the profits from their production of arms for export, and these funds can be used to renovate production facilities by purchasing modern equipment and technology from the West.

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-- The Chinese leadership may also be more willing to allocate funds to modernizing defense industries, believing the advanced military hardware can then be used to earn foreign exchange as well as serving to reequip and modernize China's armed forces. [REDACTED]

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Prospects

Beijing made excellent progress in 1981 and 1982 in penetrating the international arms market, but may have difficulty maintaining its share of the market. Despite its low prices and an expanding array of hardware, Beijing still cannot meet the demand of many Third World countries for advanced weapons. On the other hand, the compatibility of Chinese hardware, spare parts, and ammunition with older Soviet equipment could provide China additional customers. As with Iraq, there are other Soviet clients that desire to diversify their sources of military supply, and the Chinese should be able to capitalize on this because of their willingness to undercut Soviet prices on ammunition, spare parts, and technical services. [REDACTED]

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China also is finding that some Third World nations seek the newer equipment being developed for China's own military. Iraq is buying China's newest tank, and many nations wish to purchase newer Chinese antitank and antiaircraft systems. This has created some pitfalls for the Chinese, because many of their newer weapons systems are being advertised before they are available in quantity. [REDACTED]

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CHINA: Third World Arms Sales, 1981-82(Million US \$)

	<u>1981/1982</u>	<u>1981-82 TOTAL</u>
<u>Traditional customers</u>		
Bangladesh	6	6
Egypt	50 / 364	414
Pakistan	120	120
Sudan	8	8
Tanzania	5 / 7	12
Zambia	14	14
Zaire	7 / 5	12
TOTAL	210 / 376	586
<u>New clients</u>		
Libya ^a	305	305
Iran ^b	40	40
Iraq ^c	2,239 / 800	3,039
Kuwait	32	32
Oman	7	7
Syria	28 / 47	75
TOTAL	2,651 / 847	3,498
OVERALL TOTAL	2,861 / 1,223	4,084

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